BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Milwaukee Water Works, Milwaukee County,
For Authority to Increase Water Rates — Docket No. 3720-WR-108

SURREBUTTAL TESTIMONY OF PATRICK PLANTON
June 20, 2014

Q. Please state your name.

A. My name is Patrick Planton.

Q. Have you previously submitted testimony in this proceeding?

A. Yes.

Q. Have you reviewed the direct testimony, rebuttal testimony and exhibits submitted by Milwaukee Water Works, MWW's consultants, Public Service Commission Staff, and MillerCoors?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to address the rebuttal testimony offered by others regarding the allocation of water main costs between transmission and distribution functions, the revision of customer demand factors, the approval of a differential rate of return, and the allocation of public fire protection costs to the wholesale customers.

Transmission & Distribution Main Cost Allocation

Q. Mr. Wright argues that allocating MWW's investment in water mains between transmission and distribution based on his inch-feet assumption "better correlates this

investment to the customer demands." (Rebuttal-MWW-Wright-12, line 2-3). Do you agree?

A. No, I don't agree. Mr. Wright's contention is completely contrary to cost causation principles. Under utility rate-making, a utility's revenue requirement consists of (1) depreciation, (2) return on rate base, (3) taxes (including PILOT), and (4) operation and maintenance costs. The annual depreciation accrual is calculated by applying applicable depreciation rates on the **actual historical utility cost of the assets being depreciated**. Return on rate base is calculated by applying the PSC authorized rate of return percentage to the **actual historical cost of the utility's financed assets**. PILOT is calculated by applying the applicable tax rate to the **actual historical cost of the utility's assets**. All these costs are calculated based **upon actual historical costs**. It should be undisputed that under cost causation principles therefore that the wholesale customers should only share in the cost of the depreciation, return on rate base, and PILOT that arise from the actual historical cost of MWW's transmission mains.

Mr. Wright supports his argument for the inch-feet assumption by discussing the relative cost of repairing and maintaining older versus new water main infrastructure. But MWW's operation and maintenance costs related to water mains is not at issue. The wholesale customers have not challenged MWW's allocation of operation and maintenance expenses related to transmission mains ($499,999) and distribution mains ($975,400). (Ex.-MWW-Wright-2, Schedule 7, page 2.) All that is at issue is the depreciation, return on rate base, and taxes (including PILOT) that are properly allocated to transmission mains, and these costs are all based on actual historical costs.

Q. How would you respond to Mr. Wright's "problem" with the use of original cost data as described in his rebuttal testimony at Rebuttal-MWW-Wright-12 to 13?

A. Mr. Wright states that *"[t]he problem with the use of original cost data is that it skews the allocation results toward more recent assets that inherently cost more today due to the effect of construction cost inflation over time"* and he provides examples to show how new construction would impact the cost allocation between transmission and distribution mains. (Rebuttal-MWW-Wright-12 to 13.) I do not view this as a problem, but rather the way cost of service rates are established.

The reason that MWW and Mr. Wright may view this as a "problem" may be explained by MWW's need to engage in a more robust main replacement program. This issue is thoroughly reviewed and discussed in Anne Waymouth's direct and rebuttal testimony. In addition, I also provided rebuttal testimony and an exhibit showing that the overwhelming majority (97 percent) of MWW's main breaks that are listed in its Water Main Break Experience Index (WMEI) have occurred in MWW's distribution main piping. (Rebuttal-Wholesale Customers-Planton-5, lines 17-19; Ex.-Wholesale Customers-Planton-9.)

If MWW accepts Ms. Waymouth's recommendations and undertakes a more vigorous main replacement program -- which it should -- the cost of the new mains will be included in future rate cases. If MWW water mains are allocated based upon actual costs (as in Docket 3720-WR-107), the replacement of distribution mains would increase the amount that retail customers would pay for depreciation, return on rate base, and PILOT on these new distribution water mains. The wholesale customers' costs, however, would not similarly increase because the costs related to the replacement distribution mains would not provide

service to the wholesale customers. Mr. Wright sees this as a problem. I see this as appropriately reflecting cost causation principles.

Q. Mr. Wright claims his inch-feet assumption results in a more equitable allocation of costs. (Rebuttal-MWW-Wright-12, lines 9-13.) Do you agree?

A. Absolutely not. Under MWW's and Mr. Wright's inch-feet allocation approach, the wholesale customers would pay a share of MWW's costs to replace its distribution mains – even though MWW would have invested nothing that would better serve or benefit the wholesale customers. MWW and Mr. Wright claim this is a "more equitable allocation of costs." But for who? It is difficult to see how MWW's proposed water main cost allocation assumption is equitable for the wholesale customers.

Customer Demand Factors

Q. Mr. Granum asserts in his rebuttal testimony that there is no dispute about the data contained in the Customer Demand Study. (Rebuttal-MWW-Granum-1, line-13-16.) Do you agree that the data is not in dispute?

A. I do not agree. In each of their rebuttal testimonies, both Mr. Granum and Ms. Cramer assert that because a considerable amount of data was collected for the Customer Demand Study that the data collected was sufficient. (Rebuttal-MWW-Cramer-2 and Rebuttal-MWW-Granum-3). As the testimony submitted by the wholesale customer group's witnesses make clear, however, this data is not sufficient for the purpose of establishing relative customer demand factors. The concerns raised by the wholesale customer group's witnesses are not over the sheer quantity of data gathered, but rather the quality of the data gathered, and more importantly, the way the data was used to develop recommendations on demand factors.

Further, as to the accuracy of the actual data that was collected, the wholesale customer group cannot really comment. The 98-page Study was just provided to the wholesale customers on May 7, 2014, and given the short timeframe for this rate case, the wholesale customers have not examined the accuracy of the actual data collected. This is not a concession that the data is accurate as Mr. Granum would like to believe, but rather an acknowledgement that there is only so much time, and that the available time was better spent by the wholesale customer group's witnesses reviewing how the data collected was used.

Q. On Page 4 of his rebuttal testimony, Mr. Granum responds to your testimony that the wholesale customers' demand ratios proposed by MWW rely too heavily on data from 2012, which was a hotter-than-average year. (Rebuttal-MWW-Granum-4.) How do you respond to his response?

A. Mr. Granum's response misses my point. My point is that when developing demand ratios, longer time periods of analysis are vastly better and provide the critical historical context that the MWW Customer Demand Study lacks. Mr. Granum seems to understand this when he notes "*that more data would allow examination of dozens of these 12-month periods, which eventually would reveal each wholesale customer's typical demand factors with greater precision.*" (Rebuttal-MWW-Granum-4, lines 12-14.) Yet his creation of different 12-month periods (March to March; April to April, etc) over a relatively short period of time demonstrates that he misses my point entirely.

The goal for developing credible peak demand ratios for service cost allocations is not unlike that for developing peak demand ratios for sizing water supply facilities. Using many **years** of data provides historical context. The Customer Demand Study acknowledges

the need for historical context at the beginning of Section III: Historical Analysis of Retail Customer, where is states *"[i]n order to determine the appropriate sample size and composition, it was* ***important to understand the historical consumption patterns*** *of the individual customers classes and the total water pumpage of the utility." (emphasis added)* (Ex.-MWW-Cramer-2, p. 9). Using data that covers just a year or two could skew peak demand ratios. Anomalous year data, in particular, must be viewed in its historical context so as to not skew averages or ratios.

There is no dispute that 2012, the year on which the wholesale customer ratios are most heavily based, was an anomalous year. The anomaly of 2012 is not eliminated by breaking down portions of 2012 into different 12-month segments. All the 12-month segments incorporate the anomaly of 2012.

A multi-year analysis of usage however limits the anomalous impacts of 2012. In my direct testimony, I propose that the wholesale demand factors be based upon a six-year average of usage. (Direct-Wholesale Customers-Planton-12 to 13.) This approach provides the historical context that the Demand Study lacks.

Q. Mr. Granum opines that the demand ratios developed for all customer classes in the Customer Demand Study are the best factors to use in the cost-of-service for MWW. (Rebuttal-MWW-Granmum-22, lines 13-20.) Do you agree?

A. I respectfully could not disagree more. The conclusions drawn from and the recommendations made in the Customer Demand Study are completely devoid of any historical context in determining customer demand factors. The window of data is the 2012-2013 period; and neither sets of customer demand data (retail or wholesale) are included for the entire 2012-2013 period.

I concur with PSC staff witness Denise Schmidt's assessment that there are *"sufficient deficiencies both in the scope of data collected and analysis of that data to warrant further study of customer demand factors before revising ratios to be incorporated in a cost of service study."* (Rebuttal-PSC-Denise Schmidt-3).

Q. Mr. Granum and Ms. Cramer both speak to the limitations in the data collection in their Customer Demand Study. Do these limitations affect your opinion on the usefulness of their demand factor recommendations?

A. No. Mr. Granum asserts that "*it is generally not feasible to collect data for all customer classes at the same time due to limitations in utility resources, unless the technology allows it."* (Rebuttal-MWW-Granum-7.) Ms. Cramer similarly describes in her rebuttal testimony the issues encountered with first obtaining the ERTs, then installing them and finally downloading the data every 40 days due to limitations in storing retail customer demand data using the ERTs. (Rebuttal-MWW-Cramer-4.)

These concerns and limitations of the Study's data collection equipment and difficulties that were encountered were based on the scope and limited schedule of the Customer Demand Study. But these difficulties were self-imposed - the wholesale customers had no input in the scope or schedule of this study – a one-time study of limited scope and duration whose recommendations increase the extra capacity costs shifted to wholesale customers by over eight hundred thousand dollars.

Q. Mr. Granum notes in his rebuttal testimony that you did not include the 2013 maximum day ratios in your recommendation of using a six year average of maximum day ratios for the wholesale customers. (Rebuttal-MWW-Granum-10, line 22 to -11,

line 5.) Why didn't you include the maximum day to average day demand ratios for 2013 in your recommended wholesale customer maximum day demand factors?

A. I proposed using the same six-year period (2007-2012) to establish wholesale customer demand factors that MWW used to establish its system demand factors. I was striving to be consistent. I have no objection to basing demand factors on the years 2008 to 2013.

Q. On Page 11 of his rebuttal testimony Mr. Granum questions the adjustments made to Greendale's historical maximum day values. (Rebuttal-MWW-Granum-11, lines 15-21.) What is your response to this?

A. The adjustments for Greenfield that I made were the same ones approved by the Commission in Docket 3720-WR-107. I cited the basis for the adjustments in my direct testimony. (Direct-Wholesale Customers-Planton-13.) Ex.-Wholesale Customers-Planton-10 is a copy of the testimony and exhibit that I referred to in my direct testimony.

Differential Rate of Return

Q. Mr. Wright states in his rebuttal testimony that the Commission has a long history of authorizing a rate of return differential between wholesale and retail customers. (Rebuttal-MWW-Wright-9, lines 5-6.) Do you agree with his characterization?

A. No. The long history that Mr. Wright refers to is less than seven years old and includes only three Wisconsin water utilities. The first instance of the Commission granting a differential rate of return between retail and wholesale customers was in the 2007 Racine Water Utility rate case. (Docket 4900-WR-109.) Since then two other utilities have been granted a differential rate of return for their wholesale customers: MWW and Oak Creek. According to PSC staff, there are 25 other municipally-owned wholesale water suppliers in Wisconsin

that do not impose differential rates of return for their wholesale customers. Ex.-Wholesale Customers-Planton-11.

Q. With regard to the differential rate of return, MWW's Carrie Lewis discusses the enormous weight of the responsibility of owning and operating a drinking water utility. (Rebuttal-MWW-Lewis-5, lines 5-7.) Do you have a response?

A. I fully appreciate that owning and operating a water utility is a tremendous responsibility. However, that does not answer the question about why a higher rate of return from the wholesale customers is justified. Ms. Lewis' rebuttal testimony seems rather to provide support for **not** charging the wholesale customers a higher rate of return. MWW, as a wholesale supplier, makes decisions regarding the operation of its system, and the wholesale customers share in the cost of those decisions even though they have no input into the decisions. Ms. Lewis testifies about decisions related to water main breaks in the distribution system (Rebuttal-MWW-Lewis-5, lines 10-14), but she fails to acknowledge that the wholesale customers share in the cost of the water lost from those main breaks in MWW's distribution system, while completely bearing the cost of water lost from main breaks in their own systems. She discussed MWW's "extensive water main flushing program" (Rebuttal-MWW-Lewis-6, lines 8-13), but again does not acknowledge the water used by MWW for its main flushing is in part paid for by the wholesale customers, even though the wholesale customers solely bear the cost of the water used in their own main flushing programs. Ms. Lewis seems to take for granted the many benefits MWW receives from selling water to the wholesale communities. I would suggest that those benefits outweigh whatever additional risks MWW may have in serving the wholesale customers, and that as a result no differential rate of return is justified.

Public Fire Protection Cost Allocation

Q. In Mr. Pauly's rebuttal testimony he comments on the wholesale customers' ability to meet their own public fire flows. (Rebuttal-MWW-Pauly-4.) Do you have a response to those comments?

A. My direct testimony discusses the storage needs of the wholesale customers, and the existing storage facilities operated by them to meet their peak hour and fire flow needs. Each wholesale customer's supply system is designed to meet maximum day demands, just like MWW's system is. In addition, each wholesale customer's storage and distribution systems have been designed and are operated to meet peak hour and public fire protection needs, just like MWW's system is. For additional discussion on this topic I refer to Mr. Kaempfer's pre-filed testimony.

Q. Does this conclude your rebuttal testimony?

A. Yes.